

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	Lenawee County Building Authority	County	LENAWEE	Type	COUNTY	MuniCode	46-7-506
Opinion Date	06/09/2008	Audit Submitted	06/25/2008	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="N/A"/>
General Fund Expenditure:	<input type="text" value="N/A"/>
Major Fund Deficit Amount:	<input type="text" value="N/A"/>

General Fund Balance:	<input type="text" value="N/A"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$4,705,000"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	David	Last Name	Fisher	Ten Digit License Number	1101010337
CPA Street Address	675 Robinson Road	City	Jackson	State	MI
				Zip Code	49203
				Telephone	(517) 787-6503
CPA Firm Name	Rehmann Robson	Unit's Street Address	301 N. Main St.	City	Adrian
				Zip Code	49221

**LENAWEE COUNTY
BUILDING AUTHORITY**

Lenawee County, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2007**



REHMANN ROBSON

Certified Public Accountants

LENAWEE COUNTY BUILDING AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

June 9, 2008

Board Members
Lenawee County Building Authority
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of **LENAWEE COUNTY BUILDING AUTHORITY** (a Michigan Corporation and Authority and a component unit of the County of Lenawee) as of and for the year ended December 31, 2007, which collectively comprise the Building Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Building Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Lenawee County Building Authority at December 31, 2007, and the respective changes in financial position and cash flows where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2008, on our consideration of the *Lenawee County Building Authority's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Lenawee County Building Authority has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

COMPONENT-WIDE FINANCIAL STATEMENTS

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Assets

December 31, 2007

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 1,487,091	\$ 660,358	\$ 2,147,449
Receivables	122,335	10,648	132,983
Net investment in direct financing lease	3,129,777	3,516,128	6,645,905
Other assets	-	69,683	69,683
Capital assets not being depreciated	-	75,000	75,000
Capital assets being depreciated, net	-	4,947,053	4,947,053
Total assets	4,739,203	9,278,870	14,018,073
Liabilities			
Accounts payable and accrued expenses	34,203	33,381	67,584
Unearned revenue	-	165,144	165,144
Noncurrent liabilities:			
Due within one year	350,000	945,000	1,295,000
Due in more than one year	4,355,000	4,125,000	8,480,000
Total liabilities	4,739,203	5,268,525	10,007,728
Net Assets			
Invested in capital assets, net of related debt	-	3,662,053	3,662,053
Unrestricted	-	348,292	348,292
Total net assets	\$ -	\$ 4,010,345	\$ 4,010,345

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Activities

For the Year Ended December 31, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program</u> <u>Revenues</u>	<u>Net (Expense)</u> <u>Revenue</u>
		<u>Charges</u> <u>for Services</u>	
Primary government			
Governmental activities:			
Interest on bonds	\$ 161,728	\$ 161,728	\$ -
Business-type activities:			
Human Services Building Operations	1,025,000	1,409,315	384,315
Medical Care Facility	32,830	32,830	-
Total business-type activities	1,057,830	1,442,145	384,315
Total primary government	\$ 1,219,558	\$ 1,603,873	\$ 384,315

continued...

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Activities (Concluded)
For the Year Ended December 31, 2007

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Changes in net assets			
Net (expense) revenue	\$ -	\$ 384,315	\$ 384,315
General revenues:			
Unrestricted investment earnings	-	26,207	26,207
Change in net assets	-	410,522	410,522
Net assets, beginning of year	-	3,599,823	3,599,823
Net assets, end of year	\$ -	\$ 4,010,345	\$ 4,010,345

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

LENAWEE COUNTY BUILDING AUTHORITY

Balance Sheet Governmental Funds December 31, 2007

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,402,251	\$ 84,840	\$ 1,487,091
Accounts receivable, net	109,844	328	110,172
Due from other governments	11,163	-	11,163
Due from other funds of Lenawee County	1,000	-	1,000
	<hr/>		
<u>TOTAL ASSETS</u>	\$ 1,524,258	\$ 85,168	\$ 1,609,426
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts and contracts payable	\$ 7,777	\$ 237	\$ 8,014
Deferred revenue	96,464	-	96,464
	<hr/>		
	104,241	237	104,478
Fund balances			
Unreserved - undesignated	1,420,017	84,931	1,504,948
	<hr/>		
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 1,524,258	\$ 85,168	\$ 1,609,426
	<hr/>		

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
December 31, 2007

Fund balances - total governmental funds	\$ 1,504,948
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (such as certain receivables) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance.

Add - net investment in direct financing lease	3,129,777
Add - deferred accounts receivable	96,464

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(4,705,000)
Deduct - accrued interest on long-term liabilities	(26,189)

Net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ -</div>
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The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
Revenue			
Charges for services	\$ 364,460	\$ -	\$ 364,460
Interest revenue	88,456	4,484	92,940
Total revenue	452,916	4,484	457,400
Expenditures			
Current:			
Public safety	-	5,610	5,610
Debt service:			
Principal	350,000	-	350,000
Interest and fiscal charges	163,086	-	163,086
Total expenditures	513,086	5,610	518,696
Net change in fund balances	(60,170)	(1,126)	(61,296)
Fund balance, beginning of year	1,480,187	86,057	1,566,244
Fund balance, end of year	\$ 1,420,017	\$ 84,931	\$ 1,504,948

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balances - total governmental funds	\$ (61,296)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report revenue raised to support the construction and financing of leased facilities and the related capital outlays as revenue and expenditures. However, in the statement of activities, these receipts and disbursements are recorded as adjustments to the net investment in direct financing leases.

Deduct - net adjustment to the investment in direct financing leases	(290,062)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds payable	350,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	1,358
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Change in net assets of governmental activities	\$ -
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The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Assets

Proprietary Funds

December 31, 2007

	Human Services Building	Medical Care Facility	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 616,486	\$ 43,872	\$ 660,358
Accounts receivable	10,648	-	10,648
Current portion of net investment in direct financing lease	-	215,000	215,000
Total current assets	<u>627,134</u>	<u>258,872</u>	<u>886,006</u>
Noncurrent assets			
Net investment in direct financing lease, net of current portion	-	3,301,128	3,301,128
Deferred cost on bond reissue, net of amortization	69,683	-	69,683
Capital assets, net of accumulated depreciation	5,022,053	-	5,022,053
Total noncurrent assets	<u>5,091,736</u>	<u>3,301,128</u>	<u>8,392,864</u>
Total assets	<u>5,718,870</u>	<u>3,560,000</u>	<u>9,278,870</u>
Liabilities			
Current liabilities			
Accounts payable	18,917	-	18,917
Accrued wages and benefits	7,788	-	7,788
Accrued interest payable	6,676	-	6,676
Unearned revenue	165,144	-	165,144
Current portion of due to Lenawee County	50,000	-	50,000
Current portion of bonds payable	680,000	215,000	895,000
Total current liabilities	<u>928,525</u>	<u>215,000</u>	<u>1,143,525</u>
Long-term debt			
Bonds payable, net of current portion	680,000	3,345,000	4,025,000
Due to Lenawee County, net of current portion	100,000	-	100,000
Total long-term debt	<u>780,000</u>	<u>3,345,000</u>	<u>4,125,000</u>
Total liabilities	<u>1,708,525</u>	<u>3,560,000</u>	<u>5,268,525</u>
Net assets			
Invested in capital assets, net of related debt	3,662,053	-	3,662,053
Unrestricted	348,292	-	348,292
Total net assets	<u>\$ 4,010,345</u>	<u>\$ -</u>	<u>\$ 4,010,345</u>

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Revenue, Expenses and

Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2007

	Human Services Building	Medical Care Facility	Total
Operating revenue			
Charges for services	\$ -	\$ 32,830	\$ 32,830
Rental income	1,407,447	-	1,407,447
Vending and other income	1,868	-	1,868
Total operating revenue	1,409,315	32,830	1,442,145
Operating expenses			
Personal services costs	359,048	-	359,048
Supplies and other operating expenses	204,319	-	204,319
Other contractual services	77,241	-	77,241
Administrative costs	31	-	31
Depreciation expense	153,968	-	153,968
Total operating expenses	794,607	-	794,607
Operating income	614,708	32,830	647,538
Non-operating revenue (expenses)			
Interest income	26,207	-	26,207
Interest expense	(103,191)	(32,830)	(136,021)
Total non-operating revenue (expenses)	(76,984)	(32,830)	(109,814)
Income before transfers	537,724	-	537,724
Transfers to other funds of Lenawee County	(127,202)	-	(127,202)
Change in net assets	410,522	-	410,522
Net assets, beginning of year	3,599,823	-	3,599,823
Net assets, end of year	\$ 4,010,345	\$ -	\$ 4,010,345

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Human Services Building	Medical Care Facility	Total
Cash flows from operating activities			
Cash received from users	\$ 1,304,115	\$ 32,830	\$ 1,336,945
Other operating receipts	1,868	-	1,868
Cash paid to employees and suppliers	(637,625)	-	(637,625)
Net cash provided by operating activities	668,358	32,830	701,188
Cash flows from capital and related financing activities			
Principal payments on long-term debt	(705,000)	(195,000)	(900,000)
Interest payments on long-term debt	(71,157)	(32,830)	(103,987)
Net cash used in capital and related financing activities	(776,157)	(227,830)	(1,003,987)
Cash flows from non-capital financing activities			
Transfers to other funds of Lenawee County	(127,202)	-	(127,202)
Cash flows from investing activities			
Interest income received	26,207	-	26,207
Amounts collected on direct financing lease	-	197,022	197,022
Net cash provided by investing activities	26,207	197,022	223,229
Net increase (decrease) in cash and cash equivalents	(208,794)	2,022	(206,772)
Cash and cash equivalents, beginning of year	825,280	41,850	867,130
Cash and cash equivalents, end of year	\$ 616,486	\$ 43,872	\$ 660,358

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended December 31, 2007

	Human Services Building	Medical Care Facility	Total
<hr/>			
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 614,708	\$ 32,830	\$ 647,538
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	153,968	-	153,968
Increase (decrease) in:			
Accounts receivable	(10,648)	-	(10,648)
Accounts payable	11,915	-	11,915
Accrued wages and benefits	1,747	-	1,747
Unearned revenue	(103,332)	-	(103,332)
	<hr/>		
Net cash provided by operating activities	<u>\$ 668,358</u>	<u>\$ 32,830</u>	<u>\$ 701,188</u>

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lenawee County Building Authority (“Authority”) was created in October, 1987, pursuant to the provisions of Act 31, extra session of 1948, of the Public Acts of Michigan. The Authority has no stockholders, and all monies received are designated for the costs of designing, constructing, equipping and operating a new Human Services Building and other facilities as needed, to be used by certain County Departments, State Agencies, and Federal Departments, in accordance with the agreement between the incorporating County of Lenawee (“County”), the Authority, and its bondholders.

In 2001, the Authority approved entering into a contract with the County to provide for the costs of constructing and equipping a new jail facility. The Authority issued bonds in 2003 to supplement local contributions to this project.

In 2004, the Authority approved entering into a contract with the County to refinance debt of the Medical Care Facility for prior improvements. The Authority issued bonds in 2004.

The Authority is a blended component unit of the County of Lenawee. The Authority is considered to be a blended component unit of the County because the County appoints the majority of the Authority Board members and has the ability to significantly influence operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charges for services and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Authority reports the following major governmental funds:

The *jail debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt issued for the construction of the jail.

The *jail capital projects fund* accounts for the construction of the new jail.

The Authority reports the following major proprietary funds:

The *human services building fund* accounts for the construction, operation, maintenance, and financing of the human services building.

The *medical care facility fund* accounts for the financing of the medical care facility building.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Human Services Building are rental charges to building tenants. Operating expenses for enterprise funds include the cost of building maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Investments are stated at fair value.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

2. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At December 31, 2007, the Authority's cash and cash equivalents consisted of the following:

	<u>Book</u>	<u>Bank</u>
<u>Deposits</u>		
Checking and savings accounts	\$ 163,800	\$ 163,800
Certificates of deposits	1,367,895	1,367,895
Equity in pooled checking account	<u>21,427</u>	<u>N/A</u>
Total deposits	1,553,122	<u>\$ 1,531,695</u>
<u>Investment</u>		
MBIA government liquid asset fund	<u>594,327</u>	<u>\$ 594,327</u>
	<u>\$ 2,147,449</u>	

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. As of December 31, 2007, the Authority through the County Treasurer has investments that consist of \$594,327 in MBIA government liquid asset funds. This investment is not rated.

Custodial Credit Risk – Deposits. The Authority maintains \$1,531,695 in checking, savings and CD accounts at banks which are under custody of the County Treasurer. It is not practical to determine the insured portion of these balances since they are included in the pooled and other cash accounts of Lenawee County.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the County does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

B. Receivables

Receivables in governmental activities are comprised of the following:

Accounts receivable - jail	\$ 7,780,299
Interest receivable	13,708
Due from other governments	11,163
Due from other funds of County	<u>1,000</u>
Subtotal	7,806,170
Less: allowance for doubtful accounts	<u>7,683,835</u>
	<u><u>\$ 122,335</u></u>
Amount not expected to be collected within one year	<u><u>\$ 40,000</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets, being depreciated:				
Buildings and improvements	7,603,554	-	-	7,603,554
Less accumulated depreciation for:				
Buildings and improvements	<u>2,502,532</u>	<u>153,969</u>	<u>-</u>	<u>2,656,501</u>
Total capital assets, being depreciated, net	<u>5,101,022</u>	<u>(153,969)</u>	<u>-</u>	<u>4,947,053</u>
Business-type activities capital assets, net	<u><u>\$ 5,176,022</u></u>	<u><u>\$ (153,969)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,022,053</u></u>

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

D. Net Investment in Direct Financing Lease (Capital Lease)

Governmental Activities

During the year ended December 31, 2003, the Building Authority issued general obligation bonds to finance the costs of constructing and equipping a new jail facility. Under a lease agreement, the County has agreed to pay the Authority periodic cash rental amounts sufficient to enable the Authority to pay the principal and interest on the bonds. Such rentals are pledged exclusively for payment of principal and interest on the revenue bonds, and cease after all bonds have been retired. The County has pledged its full faith and credit for the payment of the cash rentals as additional security.

The long-term lease has been accounted for as a direct financing lease in accordance with Statement of Financial Accounting No. 13, "Accounting for Leases". The future minimum lease rentals receivable are sufficient to repay the revenue bonds and interest.

The Authority's net investment in direct financing lease consists of:

Net investment in capitalized lease	\$ 3,129,777
Less: Current portion of net investment in capitalized lease	<u>350,000</u>
	<u>\$ 2,779,777</u>

The future minimum lease rentals receivable represent amounts due for repayments on the bonds for the jail facility less any cash remaining in the Building Authority to repay the debt.

Business-type Activities

During the year ended December 31, 2004, the Building Authority issued general obligation bonds to pay-off amounts owed by the County Medical Care Facility to the Delinquent Tax Revolving Fund. Under a lease agreement, the County Medical Care Facility has agreed to pay the Authority periodic cash rental amounts sufficient to enable the Authority to pay the principal and interest on the bonds. Such rentals are pledged exclusively for payment of principal and interest on the revenue bonds, and cease after all revenue bonds have been retired. The County has pledged its full faith and credit for the payment of the cash rentals as additional security.

The long-term lease has been accounted for as a direct financing lease in accordance with Statement of Financial Accounting No. 13, "Accounting for Leases". The future minimum lease rentals receivable are sufficient to repay the revenue bonds and interest.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

The Authority's net investment in direct financing lease consists of:

Net investment in capitalized lease	\$ 3,516,128
Less: Current portion of net investment in capitalized lease	<u>215,000</u>
	<u>\$ 3,301,128</u>

The future minimum lease rentals receivable represent amounts due for repayments on the bonds for the Medical Care Facility less any cash remaining in the Building Authority to repay the debt.

E. Payables

Accounts payable and accrued liabilities in the governmental activities are as follows:

Trade accounts payable	\$ 8,014
Accrued interest payable	<u>26,189</u>
	<u>\$ 34,203</u>

Accounts payable and accrued liabilities in the business-type activities are as follows:

Trade accounts payable	\$ 18,917
Wages, fringe benefits and other accrued liabilities	7,788
Accrued interest payable	<u>6,676</u>
	<u>\$ 33,381</u>

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

F. Long-term Debt

The Authority issues limited tax general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities.

Authority long-term debt activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
G.O. Bonds of \$6,030,000 due in varying annual installments of \$325,000 to \$530,000 at interest rates of 2.1% to 3.9%.	\$ 5,055,000	\$ -	\$ 350,000	\$ 4,705,000	\$ 350,000
Business-type activities:					
G.O. Bonds of \$1,410,000, due in varying installments of \$125,000 to \$165,000 plus interest rates of 2.0% to 3.5%, through 2014.	\$ 1,160,000	\$ -	\$ 130,000	\$ 1,030,000	\$ 130,000
G.O. Bonds of \$2,595,000, due in varying installments of \$65,000 to \$200,000 plus interest rates of 3.5% to 4.0%, through 2026.	2,595,000	-	65,000	2,530,000	85,000
Refunding G.O. Bonds of \$4,525,000, due in varying installments of \$610,000 to \$680,000 plus interest rates of 2.0% to 3.1%, through 2009.	2,015,000	-	655,000	1,360,000	680,000
Total bonds	5,770,000	-	850,000	4,920,000	895,000
Loans Payable to Lenawee County Delinquent Tax Revolving Fund	200,000	-	50,000	150,000	50,000
Total long-term debt	\$ 5,970,000	\$ -	\$ 900,000	\$ 5,070,000	\$ 945,000

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

On September 1, 2002, the County issued \$4,525,000 in Limited Tax Full Faith and Credit General Obligation Refunding Bonds with an average rate of 2.6% to advance refund \$4,260,000 of outstanding 1993 Series Limited Tax Full Faith and Credit General Obligation Bonds with an average interest rate of 5.6%. As a result, the \$4,260,000 remaining 1993 Series bonds are considered to be defeased and the liability for these bonds has been removed from the Building Authority Fund. The balance of the defeased bonds outstanding was \$1,380,000 at December 31, 2007. This transaction resulted in a deferred cost on refunded bonds, where the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the new debt (through 4/30/09).

The annual requirements to amortize the general obligation bonds as of December 31, 2007, are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 350,000	\$ 154,261	\$ 895,000	\$ 156,141
2009	375,000	144,548	905,000	129,366
2010	375,000	133,580	235,000	111,773
2011	400,000	121,262	725,000	129,243
2012	400,000	107,962	105,000	82,328
2013-2017	2,275,000	315,888	580,000	351,531
2018-2022	530,000	10,203	735,000	224,100
2023-2026	-	-	740,000	61,196
	<u>\$ 4,705,000</u>	<u>\$ 987,704</u>	<u>\$ 4,920,000</u>	<u>\$ 1,245,678</u>

The Authority has borrowed \$1,000,000 from the Lenawee County Delinquent Tax Revolving Fund. Under a revised plan which became effective for the year ended December 31, 1990 and continues annually each year thereafter, principal of \$50,000 per year is to be repaid through December 31, 2009, and a provision is made to repay to the County 75% of total annual interest earnings on investments in the Bond and Interest account (restricted cash and cash equivalents) each year, as interest expense.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Principal payments remaining under this obligation are as follows:

<u>Maturing December 31,</u>	<u>Principal Amount</u>
2008	\$ 50,000
2009	<u>100,000</u>
Total	<u>\$ 150,000</u>

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 9, 2008

Commission Members
Lenawee County Building Authority
Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the ***Lenawee County Building Authority***, as of and for the year ended December 31, 2007, which collectively comprise the Building Authority's basic financial statements, and have issued our report thereon dated May 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lenawee County Building Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Building Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Building Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Building Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Building Authority's financial statements that is more than inconsequential will not be prevented or detected by the Building Authority's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting

2007-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Management's response: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2007-2**Internal Controls – Bank Reconciliations**

- Criteria:** Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Authority's assets. Properly completed bank reconciliations, prepared on a timely basis by individuals without cash receipting or cash disbursement responsibilities and reviewed by an appropriate individual, are a fundamental element of internal control.
- Condition:** During the course of the audit, we noted that the recording of cash transactions and bank reconciliations are performed by the same individual. We examined numerous bank reconciliations noting there is no indication of when and by whom the reconciliation was prepared and no evidence of independent review once the reconciliations are completed.
- Cause:** This condition was caused by past practice and staff shortages in the Treasurer's Office.
- Effect:** As a result of this condition, the Building Authority's cash and investments could be potentially misappropriated or misstated.
- Recommendation:** We recommend that the Authority have a responsible person, who is independent of the cash and bank reconciliation process, review, initial and date all reconciliations. In addition, the preparer of the reconciliation should also initial and date all reconciliations and whenever possible, should not record cash transactions.

**Management's
response:**

The Treasurer's Office was short staffed by one person for a full year, and two employees for half of the year in 2007. After the auditor's recommendation last year, the Treasurer reviewed the reconciliations as time permitted. The Treasurer further states that the individual does date the report of the reconciliation, but now that she is aware that the reconciliation should also be initialed, it will be from this point forward. Now that the office is back to full staff, the Treasurer will be designating and training an employee to review reconciliations. There are times when it is necessary for the individual who regularly prepares the reconciliation to do cash receipts, but this is only in a backup capacity.

2007-3**Audit Adjustments**

- Criteria:** The Authority is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.
- Condition:** During the course of the audit, adjusting journal entries were posted to accrued interest receivable and revenue for the Authority's certificates of deposit.

Cause: The Authority's internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect: As a result of this condition, the Authority's accounting records were initially misstated by amounts significant to the financial statements and significant audit adjustments were necessary in order to properly record interest receivable and interest revenue.

Management's response: The interest on the CD's has never been accrued, but will be now that it was brought to the attention of the Administrator's Office.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Building Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lenawee County Building Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lenawee County Building Authority's responses to the findings identified in our audit are described above. We did not audit Lenawee County Building Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, Board Members, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

